

AMERICA'S INSURANCE INDUSTRY: KEEPING THE PROMISE

INTRODUCTION

Chairman Oxley, Ranking Member LaFalce and members of the panel, I am Dean R.

around the world. We specialize in offering a broad range of insurance products and services for many of the world's leading industries, among them marine, electronics, financial services, telecommunications and biotechnology.

While I am pleased to address the Committee today, it is obviously with deep regret for the circumstances. We at Chubb, as all Americans and people around the world, express our deepest sympathy and offer our prayers to all of the victims of the September 11, 2001 tragedy and their families.

Mr. Chairman, you have entitled the hearings "**America's Insurance Industry: Keeping the Promise.**" Your choice of title is not only uplifting, it is accurate. Very soon after the tragedy, most of the major insurance companies made it clear: despite any questions or confusions about possible "war" exclusions, we would keep our promise and pay our claims. As the leaders of the property/casualty industry, myself included, told President Bush last Friday: we are not asking for any kind of assistance, help or bailout concerning compensating the victims of this outrageous attack. The risks are spread worldwide. The industry will be able to absorb the losses.

Mr. Chairman, I know the Committee has specific questions it wishes addressed in the course of this hearing and I will do so. Before directly taking those questions, however, let me commend you and Mr. LaFalce for responding swiftly and holding these hearings. Also, we appreciate your noting the industry's positive response to paying its claims as expeditiously as possible.

Additionally, we commend Superintendent Serio for taking the leadership in coordinating the claims process in New York, and for organizing an insurance information center in lower Manhattan to help victims of the attacks answer questions about insurance claims procedures, in which we will participate.

I now address the Committee's specific questions.

THE COMMITTEE'S QUESTIONS

Question 1: How has your company been affected by the September 11 tragedy, and how have you responded? – First, concerning Chubb, I can assure that we are well-equipped financially to respond to this tragedy fully and completely.

Many valued Chubb commercial and personal insurance customers suffered devastating property losses in this tragedy. In addition, other types of claims include payments to

businesses whose operations have been interrupted, to cover their ongoing expenses (otherwise known as “business interruption” or “business income” insurance), workers compensation benefit payments, accidental death payments to individuals who died while travelling on business, and personal insurance (homeowners and automobile) losses.

On September 20 Chubb announced that our losses from all coverages related to the terrorists’ acts would be \$500-600 million pre-tax, net of reinsurance. This translates into \$325 to \$390 million after taxes. Even after this loss, however, we expect to end the year with a strong balance sheet. We have low debt, strong reserves, strong cash flow and liquidity. And let me reiterate: we are confident in the quality of our reinsurers and that our reinsurance will be paid.

The bottom line is that Chubb will meet its commitments and remain not only financially sound but also well positioned to embrace the future insurance demands of our customers.

In answer to the second part of your first question, regarding how we have responded, I first note we began receiving reports almost immediately after the attacks and began processing claims less than 48 hours later. We were the first insurer to issue a statement making it clear that we were in the business of paying claims and keeping our promises – and that we would not invoke the war risk exclusion.

Chubb, along with the other major insurers, has attempted to facilitate claims handling to the greatest extent possible. We continue to place large, clear ads in the major newspapers directing customers to their agents, brokers and 800 numbers to expedite claims handling.

Chubb is focusing on these claims at the highest level. We have activated our catastrophe center and have dispatched a cadre of our most talented people throughout New York, New Jersey and Connecticut to meet with customers impacted by the tragedy. And we have created a special Workers’ Compensation CAT Unit, staffed by employees from around the country, to expedite the processing of work comp-related benefit payments.

Many of the World Trade Center tenants devastated by the tragedy are valued Chubb commercial insurance customers. Beginning September 13, we started wire transferring advance payments to our customers, so they could begin the process of rebuilding their business. And we have designated special teams of claim adjusters dedicated to handling some of our larger customers’ workers compensation claims.

Most of our affected customers, at least from the business standpoint, are relatively sophisticated. Businesses typically have procedures in place to facilitate the claims notification process. But we must also be mindful that many homeowners’ insurance customers, such as many residents of communities like Battery Park City, are only just now being allowed back to their condominiums and apartments, or their automobiles, to begin assessing the damage they sustained.

For our displaced personal insurance customers, we have authorized advance payments for temporary housing, auto rental and clothing, so that their daily lives can be made as comfortable as possible under these trying circumstances.

We have also made advance payments to both personal and commercial customers, including the families of those customers whose employees are missing, for counseling and medical services.

In many cases, our claim adjusters have not yet been able to assess damage fully and will not be able to do so until they are allowed more access to the area around “ground zero.” In such instances, we have been meeting with customers at off-site locations throughout New York, New Jersey and Connecticut as well as, of course, by telephone. We will focus on our obligations to our customers and, together with our agents and brokers, make sure that no client, personal or commercial, is left behind. I believe that each of the other major insurance carriers have the same or very similar processes in effect.

In concert with our claims response to honor our business promises, we also took swift action to remember those personally touched by the tragedy. Though thankfully no Chubb staff members were lost, a number of employees have relatives, friends and neighbors among the missing and the dead. As a corporate family, we mourn their losses, as well as the loss of hundreds of colleagues in the agent and broker community.

In our home office, we granted paid time off for employees who volunteer on EMS units and fire departments, so they could participate in the massive rescue effort. Many employees donated blood as well as critical supplies needed for the rescuers – items like work gloves, socks, t-shirts and facemasks. We donated \$1 million to the various September 11 disaster relief funds, and we doubled the Chubb corporate contribution to our employee matching gifts program for these funds as well.

So as you can see, we have been personally touched by the enormity of the situation, on virtually every level.

Question 2: Are the immediate human needs of the victims of the tragedy being met by insurers? – Regarding the human needs of the victims, I refer to the description of the above steps we have taken, particularly regarding the response to our personal insurance customers. Beyond that, I can say, firmly and unequivocally: meeting the immediate human needs is our first and ongoing priority. Throughout the years, insurers have long had experience in responding to the victims of catastrophic events: hurricanes, earthquakes, fires, floods... whatever the calamity, the insurance industry provides for both the financial loss but also the human loss.

When handling a claim, our first priority is to provide immediate cash and facilities for feeding, clothing and housing victims. Our catastrophe claims handlers are our most experienced and I can personally attest that they are doing **everything** humanly possible to carry out their responsibilities swiftly and equitably, as well as compassionately.

Question 3: How do you think that insurers and risk purchasers will change their insurance coverages as a consequence of this tragedy? - Insurers and risk purchasers likely will change insurance coverages as a consequence of this tragedy. I can only speak from Chubb's perspective; but for a glimpse of how things may change we need only look at the immediate problem experienced by the airline industry in obtaining insurance. Thankfully, Congress acted very quickly, on a bipartisan basis, to meet that industry's need for terrorism coverage. The market appears to be responding.

It may be that terrorism risk is no longer insurable. We now know the level of catastrophe that can occur. Timing is absolutely random and thankfully by definition not given to the law of large numbers. If something can't be predicted, or priced in some fashion, it is very difficult for the private market to respond. On the other hand, purchasers are now far more sensitive to the need for this coverage. Consequently, we believe demand will greatly increase. Purchasers will demand specific terrorist coverage.

There is adequate capacity to deal with the September 11 tragedy. However, as an example I remind the Committee that we are currently in Hurricane season. If we fall prey to a catastrophic hurricane another wave of terrorist acts, or any other calamitous event, industry solvency could be called into question. Accordingly, we should work together to make sure all the coverage needs of U.S. businesses are met. We can meet this crisis, but we must prepare for the future. We suggest looking at examples of how other countries deal with terrorism and war risks.

We respectfully suggest that the Committee closely monitor how the U.S. market reacts to this situation and, if necessary, consider mechanisms for covering terrorism and war risk in the event the insurance industry cannot respond. In addition, we believe that state insurance regulators have a role in strengthening the long-term viability of the industry. If terrorism is going to be covered for U.S. citizens, either by government or private insurance, those costs must be spread across the entire country – not just the city of New York. In this situation, state regulators have broad latitude to either facilitate, or inhibit, the availability and affordability of such coverages.

While there may be market dislocation concerning terrorism risks, other changes may be positive in terms of the overall risk management marketplace. We will see an increased focus on security and protection against catastrophe not only from physical terrorism, but other forms of terrorism, such as cyber-terrorism, as well as natural disasters. I believe we will see a much greater emphasis on disaster and contingency planning going forward.

Greater focus should, in particular, be placed on current weaknesses in our economic, information, energy and transportation infrastructures. For example, last week The Association of Certified Fraud Examiners published an alert about potential cyber-terrorism attacks. A heightened sense of urgency regarding risk management will no doubt improve the insurance marketplace in these areas.

All of us must focus on developing loss control measures, redundancy, and protection of our national infrastructure. Teamwork among loss control, risk management and security

professionals will greatly enhance our ability to stay one step ahead. This is not only prudent business practice; it may well provide avenues for tracking terrorism. I note the reported evidence that to finance their operations, the terrorist cells used computer networks to communicate, engaged in computer crime, and plotted investment strategies.

Question 4: What kind of disaster recovery plans do insurers have in place? -

Insurers are in the business of risk. In addition to counseling customers about how to develop and implement disaster plans, we also have such plans at the ready. Chubb, for example, has a disaster plan in place for each of our offices throughout the United States, for use in the event of either a natural or man-made disaster. The most comprehensive of these plans is for our corporate headquarters, and includes a complete backup of all records at an offsite location to which key employees would report in the event of a catastrophe so we can continue operations while hardly missing a beat. We also have an evacuation plan for our 2,500 home office employees.

CONCLUSION

The insurance industry can meet this crisis.

Regarding the future: we are very interested in working with you to respond to the insurance needs of all U.S. business and citizens. We will help rebuild lower Manhattan, the financial capital of our country and the world, and we will respond to the losses from the Pennsylvania and Virginia attacks. Not only will we do so; we, as well as our nation, will prosper in the long term. Ultimately I envision a more vibrant economy as well as a more secure and free America.

We believe going forward the Committee should continue its focus on claims handling and market reaction to future risks. We should monitor the claims consolidation provisions in the **Air Transportation Safety and System Stabilization Act** to determine if they are having the desired effect of getting compensation out quickly at minimal cost. And we need to monitor whether the insurance market can respond to future terrorist attacks – which, by definition, are impossible to either predict or price.

Thank you for this opportunity to address the Committee. I look forward to answering your questions and working together on these issues in the challenging months ahead.